



Delaware State Treasury

State Treasurer Chip Flowers

DELAWARE ECONOMIC INDEX

As of January 1, 2014



Special Feature: Federal Budget Deal

See page 11

STATE ECONOMIC CLIMATE OVER PAST 60 DAYS

FAIR

LEGEND FOR ECONOMIC CLIMATE



NATIONAL ECONOMIC TREND
Slow Growth



CONSUMER SECTOR

Unemployment rates declining.
See page 4



BUSINESS SECTOR

Leading Index surging.
See page 7



FINANCIAL SECTOR

Delaware Stock Index up 5.26%.
See page 12



State Treasurer Chip Flowers

A Message from your State Treasurer

To People of the State of Delaware:

Welcome to the January 2014 edition of the Delaware Economy Index. Delaware's economy continues to be at a "fair" level. The state unemployment rate declined to 6.5% in November, a marked improvement from 7.3% in August. Delaware's unemployment rate has now decreased in four consecutive months and Delaware now ranks 9th in job growth after placing 40th at this time a year ago. There was some specific positive economic news during the past sixty days, including Dole Foods reaching an agreement to remain at the Port of Wilmington for another 15 years, Cabela's seeking to hire 250 people, although Fisker no longer could stave off bankruptcy. Personal per capita income growth in Delaware was 3.3% in 2012, which is at parity with the national average of 3.4%, but a decrease from 4.2% in 2011.

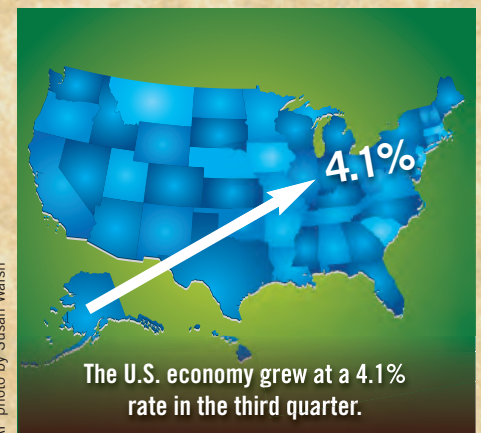
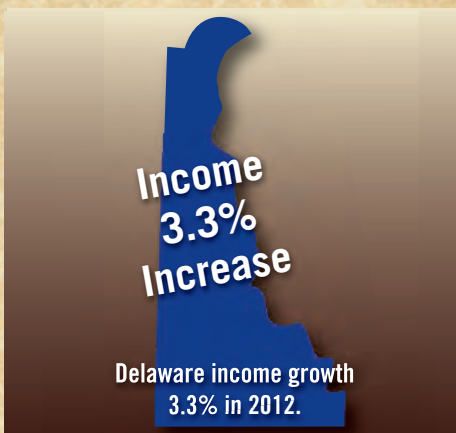
The national economic climate remained modest, but is showing signs of improvement. The national unemployment rate has declined to 7.0% and at least 200,000 jobs were created in each of the last two months. In the third quarter, the American economy grew at a healthy 4.1% annualized rate. Congress was able to agree on a budget deal that will provide more certainty to the nation as this averts the risk of another potential government shutdown for the next two years, although another showdown over raising the federal debt ceiling potentially looms this spring. After months of speculation, the Federal Reserve is now confident enough in the state of the American economy that it announced it will begin its "taper," which at first will reduce bond purchases from \$85 billion a month to \$75 billion a month. The Federal Reserve had been making purchases at that rate since September 2012. Officials have pledged to keep interest rates low until the national unemployment is approximately 6.5% or inflation exceeds 2.5%.

This month's special feature is the federal budget deal. While the deal is small in relative size, it represents a reprieve from the budget wars of recent years.

If you have any comments on our recent work or in general, feel free to e-mail me at statetreasurer@state.de.us or call (302) 672-6700. We are here to serve you.

Best,

Chip Flowers, *Delaware State Treasurer*





KEY RATIONALE

- The state unemployment rate is 6.5%, which is a substantial decrease from 7.3% in August.
- The October Regional Consumer Price Index indicated a 0.4% decrease in prices from August. The year-over-year price increase is 0.3%.
- The Federal Reserve's Beige Book showed economic growth continued at a modest pace in the Philadelphia region, which includes Delaware.
- Existing home sales improved to a moderate rate of growth, but manufacturing decelerated to slight growth.
- Tourism, staffing services, commercial real estate leasing, residential construction and general retail sales all grew at a modest pace.
- There was only slight growth in commercial real estate construction, but general services posted moderate growth while auto sales remained strong.
- Credit quality continued to improve and loan volumes increased modestly.
- Overall, Beige Book respondents' maintained an outlook of moderate growth. Respondents expressed confidence in the economy, although they remained lukewarm in terms of plans to accelerate hiring.
- Regional manufacturing activity continued to grow, as measured by the Federal Reserve Bank of Philadelphia's survey. However, Delaware firms account for only approximately 5% of the survey.
- The Federal Reserve Bank of Philadelphia's Coincident Index showed Delaware's economic activity as growing slightly in November. The Leading Index increased and is forecasting economic growth through the second quarter of 2014.
- National consumer confidence improved in both the Conference Board's Consumer Confidence Survey and the University of Michigan's Consumer Sentiment Survey.
- The national economy continued to add jobs at a modest but slightly faster pace. 203,000 jobs were created in November and 200,000 in October according to preliminary estimates. The national unemployment rate in November declined to 7.0%. This compares to a 7.2% unemployment rate in September.
- The four-week moving average of new U.S. jobless claims was 348,000 for the week ended December 14, an improvement from 356,250 for the week ended October 26.
- In Delaware, new jobless claims increased during the past sixty days. The four-week average is 1,179, an increase from 857.
- Delaware's portfolio, held and managed by the Treasury, is \$1.86 billion, compared to \$1.95 billion as of November 1.

Delaware Economic Early Warning System

STATE ECONOMIC CLIMATE OVER PAST 60 DAYS

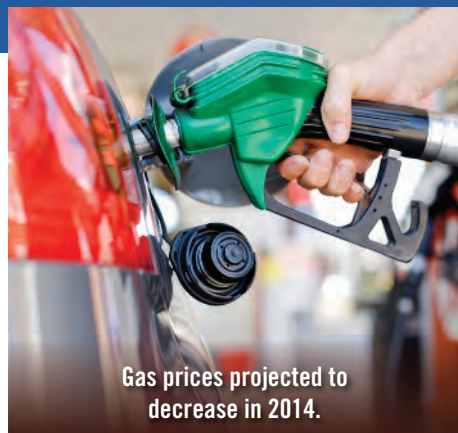
FAIR



CONSUMER SECTOR



Delaware student debt
leads nation.



Gas prices projected to
decrease in 2014.



Retail sales
rising



Employment

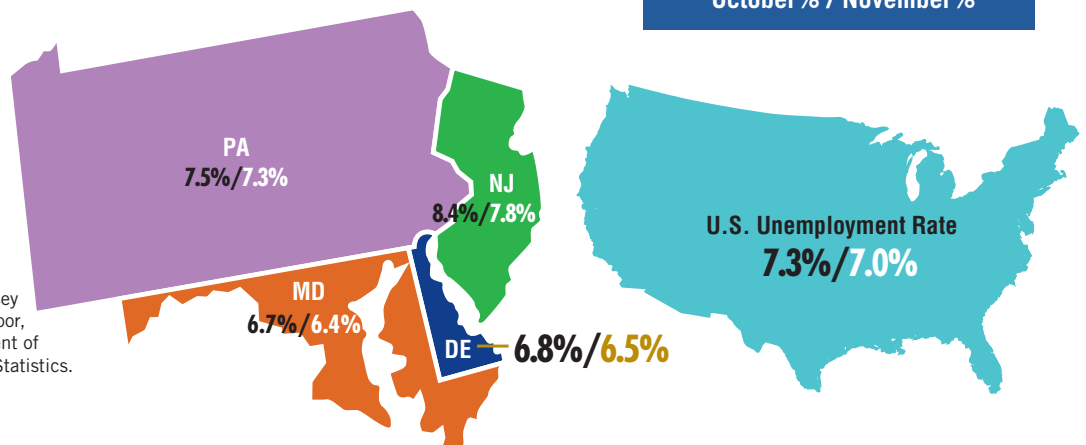
Delaware (November 2013)		Delaware October 2013)	
Labor force	439,049	Labor force	439,380
Employment	410,591	Employment	409,558
Unemployed	28,458	Unemployed	29,822
Unemployment rate	6.5%	Unemployment rate	6.8%



Source: Delaware Department of Labor

Regional Unemployment

October 2013 / November 2013



Sources: Delaware Department of Labor; New Jersey Department of Labor; Maryland Department of Labor, Licensing and Regulation; Pennsylvania Department of Labor & Industry, United States Bureau of Labor Statistics.

Delaware Jobless Claims

Initial Claims Filed

Week Ended	Number
December 14	1215
December 7	1518
November 30	969
November 23	1015
November 16	925
November 9	1001
November 2	903
October 26	896

Four week average: 1,179

Eight week average: 1,055



Source: U.S. Department of Labor



Gas Prices

	Delaware	United States
Dec. 30, 2013	\$3.46	\$3.30
One Week Ago	\$3.45	\$3.25
Nov. 1, 2013	\$3.25	\$3.28
One Year Ago	\$3.41	\$3.27

Source: Delawaregasprices.com



Mortgage Rates

	As of December 26, 2013	Week Prior
30-year fixed	4.48%	4.47%
15-year fixed	3.52%	3.51%
5-year ARM	3.00%	2.96%
1-year ARM	2.56%	2.57%

Source: Freddie Mac



Primary Mortgage Market Survey®

	As of December 26, 2013	Fees and Points
30-year fixed	4.48%	0.7%
15-year fixed	3.52%	0.7%

Source: Freddie Mac

Consumer Confidence

Conference Board

Month	Index	Rating Index
December	78.1	90 = Doing well
November	72.0	100 = Strong growth

Source: Conference Board

University of Michigan

Month	Index
December	82.5
November	75.1

Source: University of Michigan

Regional Consumer Price Index

	Oct. 2013	Aug. 2013	Change since August	Change since October 2012
All Items	241.141	242.128	-0.4%	+0.3%
Core	250.744	251.190	-0.2%	+1.2%

The regional CPI covers the Philadelphia-Wilmington-Atlantic City Consolidated Metropolitan Statistical Area. In Delaware, it covers all of New Castle County. Core inflation is the inflation rate minus food and energy items.

Source: U.S. Bureau of Labor Statistics



B U S I N E S S S E C T O R



Worker productivity increases
at best rate in 4 years.



U.S. oil production now
exceeds oil imports.



U.S. manufacturing expands at
fastest rate in two years.

Photo by Bill McAllen



National Manufacturing

National economic activity in the manufacturing sector expanded for the sixth consecutive month in November. The PMI reached its highest level in 2013 as it improved for the sixth consecutive month. A reading above 50 indicates expansion in the manufacturing sector and a PMI above 42.2 correlates with expansion in the overall economy. 15 of 18 manufacturing industries surveyed reported growth.

Index	Series Index Nov.	Series Index Oct.	% Point	Status	Rate of Change	Trend* (Months)
PMI	57.3	56.4	+0.9	Growing	Faster	6
Production	62.8	60.8	+2.0	Growing	Faster	6
New Orders	63.6	60.6	+3.0	Growing	Faster	6
Employment	56.5	53.2	+3.3	Growing	Faster	5
Supplier Deliveries	53.2	54.7	-1.5	Slowing	Slower	5
Inventories	50.5	52.5	-2.0	Growing	Slower	2
Prices	52.5	55.5	-3.0	Increasing	Slower	4
Backlog of Orders	54.0	51.5	+2.5	Growing	Faster	2
Exports	59.5	57.0	+2.5	Growing	Faster	12
Imports	55.0	55.5	-0.5	Growing	Faster	10
Customers' Inventories	45.0	47.0	-2.0	Too Low	Faster	2

Source: ISM Report on Business

National Non-Manufacturing

National economic activity in the non-manufacturing sector grew in November for the 47th consecutive month. The NMI stood at 53.9, a decline from 55.4 in October. A reading above 50 indicates expansion. 11 of 15 non-manufacturing industries reported growth. Survey respondents maintained a positive overall outlook.

Index	Series Index Nov.	Series Index Oct.	% Point Change	Status	Rate of Change	Trend* (Months)
NMI/PMI	53.9	55.4	-1.5	Growing	Slower	47
Business Activity/Production	55.5	59.7	-4.2	Growing	Slower	52
New Orders	56.4	56.8	-0.4	Growing	Slower	52
Employment	52.5	56.2	-3.7	Growing	Slower	16
Supplier Deliveries	51.0	49.0	+2.0	Slowing	From Faster	1
Inventories	54.0	54.5	-0.5	Growing	Slower	10
Prices	52.2	56.1	-3.9	Increasing	Slower	50
Backlog of Orders	49.0	50.0	-1.0	Growing	From Unchanged	1
New Export Orders	58.0	53.0	+5.0	Growing	Faster	4
Imports	55.0	55.0	0.0	Growing	Slower	4
Inventory Sentiment	60.5	62.5	-2.0	Too High	Slower	198

Source: ISM Report on Business



Regional Business Outlook Survey Diffusion Indexes

The December Business Outlook Survey's diffusion index continued to indicate growth for the seventh consecutive month as the index improved slightly. Survey respondents expressed continued optimism about future growth.

	December 2013	November 2013
General Evaluation	7.0	6.5
New Orders	15.4	11.8
Shipments	13.3	5.6
Unfilled Orders	-5.0	-4.2
Delivery Times	-9.0	3.2
Inventories	14.8	15.3
Prices Paid	20.1	29.9
Prices Received	12.9	10.0
Number of Employees	2.2	1.1
Average Employee Workweek	6.8	-8.6

Source: Federal Reserve Bank of Philadelphia

The Business Outlook Survey is conducted monthly by the Federal Reserve Bank of Philadelphia to gauge manufacturing activity in the region.

Small Business Optimism Index

Month	Index
December	92.5
November	91.6

The NFIB Small Business Optimism Index increased slightly in December to 92.5. Small business hiring was stronger in 2013 than in 2012 but remained below 2007 levels.

Source: National Federation of Independent Businesses

Index Component	Net %	Change from Last Month
Plans to Increase Employment	9%	▲ 4%
Plans to Make Capital Outlays	24%	▲ 1%
Plans to Increase Inventories	0%	▲ 1%
Expect Economy to Improve	-20%	▼ -3%
Expect Real Sales Higher	3%	▲ 1%
Current Inventory	-4%	▲ 1%
Current Job Openings	23%	▲ 2%
Expected Credit Conditions	-7%	▲ 1%
Now a Good Time to Expand	9%	▲ 3%
Earnings Trends	-24%	▼ -1%

Producer Price Index

	Nov. 2013	Nov. 2012
Total	-0.1	0.7
Except food and energy	0.1	N/A
Foods	0.0	N/A
Energy	-0.4	N/A

These are the Producer Price Index changes for finished goods. The index declined for the third consecutive month.

Source: U.S. Bureau of Labor



Coincident Index

The Coincident Index for Delaware indicated growth in November. Employment increased and the unemployment rate decreased, although the average hours worked in manufacturing declined.

Source: Federal Reserve Bank of Philadelphia

The Coincident Index is issued by the Federal Reserve Bank of Philadelphia to summarize economic conditions in the region. An increase in a state's coincident index indicates an increase in such state's Gross Domestic Product (GDP) growth.

Area	Nov. 2013	1-Month Change	3-Month Change	12-Month Change
Delaware	146.8	0.5%	1.5%	3.7%
New Jersey	154.6	0.5%	1.0%	4.0%
Pennsylvania	145.4	0.2%	0.6%	2.7%
US	156.9	0.3%	0.8%	3.0%

Leading Index

The Leading Index for Delaware was 2.6 in October, suggesting economic expansion through the second quarter of 2014. Delaware's coincident index and the index of delivery times from the Institute for Supply Management's manufacturing survey increased. On the negative side of the ledger, initial jobless claims increased and the number of building permits issued declined.

Source: Federal Reserve Bank of Philadelphia

The Leading Index is issued by the Federal Reserve Bank of Philadelphia to predict the six-month growth rate of a state's Coincident Index.

Area	October	September	August
Delaware	2.6	3.5	3.3
Pennsylvania	1.5	1.1	0.8
New Jersey	0.7	0.8	1.4
US	1.4	1.3	1.4



SPECIAL FEATURE

A Synopsis of the Recent Federal Budget Deal

The budget deal was reached by Senate and House budget committee chairs Patty Murray (D-WA) and Paul Ryan (R-WI). President Obama signed the legislation into law on December 26. The Murray-Ryan agreement sets spending levels for the next two years and avoids another potential government shutdown. The deal is limited in scope, though, and does not include an extension of the debt ceiling. However, it does represent progress and contains the following major features:

- Reduces the federal budget deficit by \$23 billion over the next ten years, although the deficit will increase slightly in the next two fiscal years;
- Sequestration is eased to the tune of \$63 billion over the next two years, with the reversed spending cuts split between defense and non-defense discretionary spending;
- Increases airline fees to generate \$13 billion of revenue over ten years;
- The deal will have an impact on retirement programs for federal employees. Civilian federal workers hired after January 1, 2014 will be required to contribute 1.3% more of their income towards their pensions. Military workers who retired before the age of 62 will see their cost-of-living increases changed to inflation minus one percent. This change will go into effect on December 1, 2015. These retirees will see their retirement benefits restored at age 62 to the level associated with full inflation during their retirement years prior to reaching that age. The civilian and military pension changes would each result in savings of \$6 billion over the next decade;
- Corporate fees for participating in the Pension Benefit Guarantee Corporation would increase by a total of \$8 billion over ten years; and
- While allowing agencies the authority to create some exceptions, the deal generally caps payments to federal contractors at \$487,000 per year.

Sources: Congressional Budget Office, Wonkblog, Center for American Progress, Washington Post

Discretionary Spending and Mandatory Spending

When listening to statements from federal officials, you may hear the phrases “discretionary spending” and “mandatory spending.”

Mandatory spending consists of programs such as Social Security, Medicare, Medicaid and smaller components of the budgets of some other departments, such as the Department of Defense and Department of Agriculture, whose spending level is dictated by prior laws. Mandatory spending comprises nearly three-fifths of the federal budget.

Discretionary spending refers to the remainder of the federal budget. It is here where recent federal budget deals have tended to swing the budget axe as mandatory spending has been exempted from such deals. Discretionary spending historically has been set annually and accounts for just under two-fifths of the federal budget.

- Mandatory spending constituted 13.6% of Gross Domestic Product (“GDP”) in 2011. This represents an increase from 10.1% in 1991.
- Health care spending totaled \$856 billion in 2011. This is the largest portion of mandatory spending. Its share of GDP is up 2.9% since 1991.
- Social Security is the second largest component of mandatory spending at \$725 billion in 2011. Its share of the economy has increased only 0.3% since 1991.
- Discretionary spending as a share of GDP remained constant at 9.0% from 1991 to 2011.
- Total discretionary spending was \$1.3 trillion in 2011. The largest component of this is \$699 billion in defense expenditures. Defense spending accounts for approximately 52% of discretionary spending.



FINANCIAL SECTOR



Chinese economic growth
estimated at 7.6% in 2013.



U.S. stock performance
best since late 90's.



France may fall
back into recession.

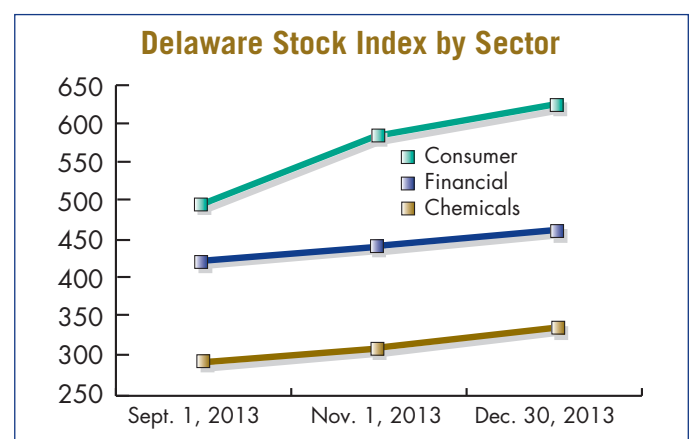
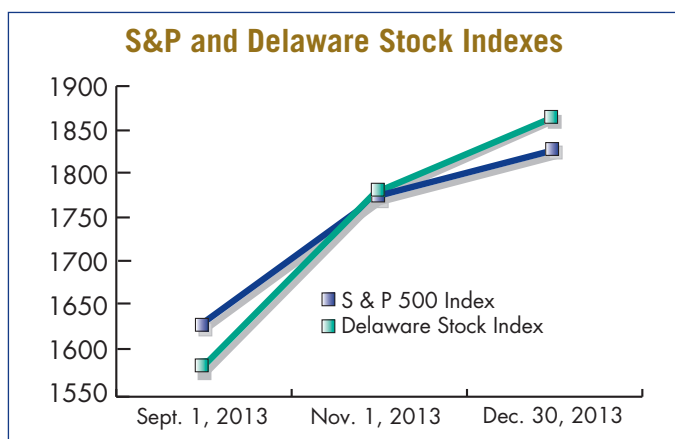


Stock Prices of Key Delaware Employers

Employer	November 1 2013	December 30 2013	% Change
Amazon.com Inc.	\$359.00	\$393.37	+9.57%
Ashland Inc.	\$92.46	\$96.56	+4.43%
AstraZeneca PLC	\$52.69	\$59.50	+12.92%
Bank of America Corp.	\$14.02	\$15.54	+10.84%
Barclay's PLC	\$16.37	\$17.98	+9.84%
Chesapeake Utilities Corp.	\$54.38	\$59.97	+10.28%
Citigroup Inc.	\$48.74	\$51.92	+6.52%
Comcast Corp.	\$48.65	\$51.87	+6.62%
Dover Downs Gaming & Entertainment Inc.	\$1.49	\$1.48	-0.67%
Dow Chemical Co.	\$38.95	\$44.60	+14.51%
DuPont	\$61.09	\$64.65	+5.83%
JP Morgan Chase & Co.	\$52.51	\$57.95	+10.36%
Kraft Foods Inc.	\$54.63	\$53.94	-1.26%
M & T Bank Corp.	\$111.90	\$116.33	+3.96%
Pepco Holdings Inc.	\$19.34	\$19.08	-1.34%
PNC Financial Services Co.	\$73.37	\$77.51	+5.64%
Rite Aid Corp.	\$5.27	\$5.05	-4.17%
Safeway Inc.	\$35.16	\$32.71	-6.97%
Siemens AG	\$127.20	\$138.15	+8.61%
Simon Property Group	\$156.60	\$153.40	-2.04%
Supervalu Inc.	\$6.97	\$7.00	+0.43%
Tanger Factory Outlet Centers Inc.	\$34.78	\$32.15	-7.56%
Verizon Communications Inc.	\$50.49	\$49.15	-2.65%
Walgreen Co.	\$60.52	\$57.84	-4.43%
Wal-Mart Stores, Inc.	\$77.07	\$78.63	+2.02%
Wells Fargo	\$42.67	\$45.50	+6.63%
WSFS Financial Corp.	\$70.17	\$77.55	+10.52%
Delaware Stock Index	1766.49	1859.38	+5.26%
S & P 500 Index	1,761.64	1,841.07	+4.51%
Dow Jones Industrial Average	15,615.55	16,504.29	+5.69%

Source: Google Finance

Stock Index Comparison





Treasury's Portfolio Balances

As of Dec. 30, 2013

Source: Delaware State Treasury

Portfolio	Market Value	% of Total
Liquidity A/Cs:		
CUTWATER ASSET MGMT	\$233,573,658.93	12.6%
PFM ASSET MANAGEMENT	\$217,331,907.87	11.7%
WELLS CAP LIQUIDITY	\$237,377,552.28	12.8%
WILMINGTON LIQUIDITY	\$120,477,063.70	6.5%
Intermediate Accounts:		
CHANDLER ASSET MGMT	\$108,808,253.34	5.8%
FEDERATED INVESTORS	\$211,611,464.76	11.4%
JPM INTERMEDIATE	\$254,072,609.80	13.5%
MORGAN STANLEY IM	\$232,481,111.43	12.5%
SCHRODER INTERM	\$112,553,252.1	8 6.0%
L&W - SCHRODER	\$77,406,819.07	4.2%
HEALTHFUND-SCHRODER	\$55,235,270.32	3.0%
Total:	\$1,860,928,963.68	100%

Key Interest Rates

Source: Bankrate.com

Rate	12/30/13	Month Ago	Year Ago
Wall Street Journal Prime Rates	3.25%	3.25%	3.25%
Federal Discount Rate	0.75%	0.75%	0.75%
Fed Funds Rate	0.25%	0.25%	0.25%
Bond Buyer's 20 Bond Index	4.73%	4.61%	3.58%
1 Month LIBOR Rate	0.17%	0.17%	0.21%
3 Month LIBOR Rate	0.25%	0.24%	0.31%
6 Month LIBOR Rate	0.35%	0.34%	0.51%
1 Year LIBOR Rate	0.58%	0.58%	0.84%
Call Money	2.00%	2.00%	2.00%

U.S. Treasury Department Bond Rates

Source: U.S. Treasury Department

Date	4 Weeks		52 Weeks	
	Bank Discount	Investment Yield	Bank Discount	Investment Yield
Dec. 30, 2013	0.01	0.01	0.12	0.12
Nov. 1, 2013	0.03	0.03	0.09	0.09

Key Benchmark Exchange Rates

As of Dec. 30, 2013

Source: Google Finance

Currency	Value (in U.S. Dollars)	Change (from previous Index)
Euro	\$1.3797	+2.23%
British Pound	\$1.65	+3.48%
Japanese Yen	\$0.0095	-5.94%
Australian Dollar	\$0.8910	-5.91%
Canadian Dollar	\$0.9397	-2.05%
Swiss Franc	\$1.1263	+2.76%
Chinese Yuan	\$0.1650	+0.67%



RECENT ECONOMIC ACTIVITY

- Cabela's Inc. announced plans to hire 250 people for its store at the Christiana Mall.
- Dole Food Co. signed a 15-year lease to continue using the Port of Wilmington. Dole is the port's largest tenant.
- Fisker Automotive filed for bankruptcy.
- Firefly Music Festival announced it will expand to four days and five nights in 2014.
- WSFS purchased the First National Bank of Wyoming.
- Mountaire Farms announced plans to hire 49 people at its Millsboro facility. The expansion of its facilities and training of its new workers will be aided by a \$87,759 grant from the Delaware Strategic Fund for jobs and a \$129,000 grant from the Delaware Strategic Fund for capital expenditures.
- Corporation Service Company will build a new office complex in New Castle County and plans to hire 100 workers in 2014.
- eShowings Inc. closed its operations in Newark resulting in the loss of about 60 jobs.
- Incyte Corp. will lease the Wanamaker building for the next 15 years. Incyte has received \$11 million in grants from the Delaware Strategic Fund tied to creating 191 jobs by 2016.
- Frontier Airlines announced plans to expand service from New Castle County airport to Atlanta and Detroit.



<http://treasury.delaware.gov/>

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